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RESEARCH AID

REPORT OF JOINT DISCUSSIONS ON SINO-SOVIET BLOC TRADE 2-11 DECEMBER 1958



CIA/RA 59-4

March 1959

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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FOREWORD

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A series of informal discussions on Sino-Soviet Bloc trade was held in Washington, D.C., from 2 to 11 December 1958. The participants were representatives from both the US and the [REDACTED]

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[REDACTED] including CIA (ORR), State (IRA), [REDACTED] Members of the EIC Subcommittee on Trade and Finance were kept fully informed of the progress of the discussions.

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The conference was convened to enable informed senior analysts to engage in detailed round-table discussions of major intelligence problems relating to Bloc trade, finance, and foreign economic policies. The subjects for discussion had been agreed on in an exchange of memoranda early in the fall of 1958. For each discussion, the Trade Branch of ORR designated a chairman who outlined the problem to be discussed and later summarized the results of the discussion.

Because of the broad intelligence implications of the topics discussed and the important conclusions which were reached, it is believed that the proceedings may be of sufficient interest to the intelligence community to warrant their dissemination. Part I contains a summary of the main conclusions reached, and Part II contains a more detailed report of each discussion.

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Participants in the conference included [REDACTED]

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[REDACTED] Messrs. Edward Jones, Harry Bell, Wendell Woodbury, and Herbert Block, IRA (State); and representatives of the following Branches of ORR (CIA): Trade Branch (Services Division); USSR, Satellite, and Far East Branches (Analysis Division); and Nonferrous Metals Branch (Materials Division).

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REPORT OF JOINT DISCUSSIONS ON SINO-SOVIET BLOC TRADE
2-11 DECEMBER 1958

I. Summary.

A. Communist China's Foreign Exchange Rates.

25X1X7 [REDACTED] State, and CIA all agreed that Communist China appears to be using dual conversion rates -- one for Bloc trade and another for Free World trade -- in determining the yuan value of its foreign trade. In its trade with the Bloc, China appears to use a ratio of 1 yuan to 1 ruble, equivalent to a cross rate of 4 yuan to US \$1. The yuan value in China's Free World trade, however, apparently is derived by applying a rate of 2.46 yuan to US \$1. Concurrence on this subject has removed a major obstacle to arriving at a generally acceptable valuation of China's foreign trade.

B. Bloc Credits to Underdeveloped Countries.

Although there were no serious problems regarding this subject, it was determined that differences between CIA and [REDACTED] estimates of Bloc military credits have been due, in part at least, to their different approaches to the subject. [REDACTED] has been estimating the value of Bloc arms delivered or promised, whereas CIA has estimated the value of arms contracts in terms of the financial indebtedness incurred by the recipient countries. 25X1X7

C. Future of Sino-Soviet Economic Relations.

It was generally agreed that Soviet economic credits have been important in China's industrialization and have been adequate, in terms of China's ability to repay, but that China will continue to rely mainly on domestic savings and domestic production to carry out its economic development. No further Soviet economic developmental credits are anticipated, although Soviet exports of capital equipment on commercial account probably will continue at about the current level over the next few years. Military loans are likely only in the event of greatly expanded Chinese military requirements.

D. Communist China's Economic Relations with the Free World.

The representatives concurred in the view that, although Communist China's trade with the Free World has in recent years expanded at a faster rate than its trade with the Bloc, this rapid rate of increase is unlikely to continue. Future trade between China and the Free World probably will expand at about the same rate as China's total trade.

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Because there is little evidence that China's trade with Southeast Asia, except for Hong Kong, has increased in 1958, the representatives held in abeyance their opinions on the degree of China's promotional success in Southeast Asia.

E. Soviet Foreign Trade Handbooks.

Although the Soviet foreign trade handbooks present a considerable amount of new information on Soviet trade for 1955-57, the handbooks contain several major discrepancies. The large discrepancy (\$106 million in 1957) between the stated total of Soviet exports and the total derived by summing Soviet exports to each country remains unaccounted for despite long and detailed discussion. The consensus was that the discrepancy was due to several factors, involving both normal accounting practices (such as goods shipped on consignment with no recorded destination) and possibly such purposeful omissions as gold shipments. It was agreed that additional information must be obtained before a satisfactory explanation can be found. Means for obtaining such information also were discussed.

F. Soviet Gold Exports and Policy.

It was agreed that the USSR strives to pay for merchandise imports with merchandise exports and -- unlike a country such as the Union of South Africa -- regards gold only as a balancing item in its trade rather than an export commodity. It was the consensus of the group that 1958 gold sales would be considerably lower than the record 1957 sales (estimated at approximately \$300 million), which largely reflected Soviet financial aid to Eastern Europe following the Satellite uprisings. Although the [REDACTED] had some reservations 25X1X7 about CIA's estimate of annual Soviet gold production (4.5 million to 5.0 million ounces), it was generally agreed that the annual volume of Soviet gold exports is consistent with a production of this order of magnitude. It was further agreed that increasing mining costs should result in intensified efforts to balance Soviet imports with exports of other goods rather than gold.

G. Ruble-Dollar Ratios in Soviet Trade.

It was agreed that more ratios -- both ruble-dollar and external ruble - internal ruble -- must be available before the economic rationale of Soviet trade can be determined. Thus, although it may appear that the USSR is generally ignoring comparative costs in its trade with the industrial West (by exporting high-cost goods in exchange for low-cost goods), the data needed to support such a conclusion are lacking. It was agreed, however, that the composition of Soviet trade is governed by the priorities of domestic plans and by domestic availabilities of goods for export.

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H. Autarky and Soviet Foreign Trade Policy.

There appeared to be general agreement on the role of autarky, defined as a policy of establishing independence of imports, in Soviet trade policy. Originally a Soviet response to a position of isolation in a hostile world, the effectiveness of autarky has -- particularly since Stalin's death -- been vitiated by the rapid increase in Soviet economic strength and by the increasing economic integration of the Bloc as a whole. It was the consensus of the group, however, that in the foreseeable future it is unlikely that Soviet leaders will permit the USSR to become dependent on external sources for any goods deemed strategic to Soviet national interests. Within these limits, however, there is room for a considerable expansion of Soviet trade.

I. Satellite Trade Statistics.

The availability and completeness of trade statistics published by each Satellite were reviewed and discussed. It was agreed that trade reporting by all the Satellites is still unsatisfactory, although only Albania and Rumania are still reluctant to publish any meaningful trade data. Exploration of the possible reasons for discrepancies in Satellite statistics took up the remainder of the discussion, although no conclusions were reached.

J. Soviet Economic Aid to European Satellites.*

Since the 1956 Satellite uprisings, the Satellites have received greatly increased Soviet aid, which has been extended on more favorable terms than previously. It was agreed that, because of imbalances still existing in the Satellite economies, additional credits -- particularly commodity credits -- probably will be required in the future. The current high level of Soviet aid which reflects the USSR's response to the 1956 uprisings should, however, diminish. By 1961-62 the reverse flow of Satellite goods to the USSR in payment for past credits may possibly exceed new extensions. It also was suggested that future Soviet developmental credits will be more selective and will go primarily to selective industries of importance to Soviet and Bloc-wide plans.

K. Bloc Economic Integration.

The group expects that, over the short run, there will be increasing Bloc economic integration along present lines -- that is,

* This discussion took place at a meeting of the Satellite Committee (Services Division, ORR), at which a member of the Trade Branch gave a 30-minute talk on the subject.

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coordination of plans, subcontracting of production, and Bloc-wide division of labor. It was agreed that a rational division of labor within the Bloc is inhibited by differences in national price structures and by vested national interests which are reluctant to give up the production of a given item in favor of another Bloc supplier. It was pointed out that the Soviet spokesmen treat centralized, supranational Bloc planning as being, at most, only an extremely long-run objective.

II. Proceedings.

A. Communist China's Foreign Exchange Rates (2 December).

25X1X7 Participants included representatives of [REDACTED] 25X1X7
[REDACTED] IRA (State), and ORR (CIA). The Chair-
25X1A9a man was [REDACTED] ORR.

It was agreed that a comparison of data on foreign trade as reported by Communist China with data as reported by the trading partners of China indicates that China has been using more than one conversion ratio in order to determine the yuan value of its trade. The yuan value of China's trade with the Free World apparently is calculated by using conversion ratios equivalent to about 2.46 yuan to US \$1. The yuan value of China's trade with other Bloc countries appears to be derived by applying a conversion ratio of 1 yuan to 1 ruble, which is equivalent to a cross rate of 4 yuan to US \$1. Furthermore, a statement made in 1957 by the Minister of Foreign Trade of China, Yeh Chichuang, indicates that the method of conversion is based on a 1 to 1 ratio between the ruble and the yuan.

Although the empirical evidence indicates that the ratio of approximately 1 yuan to 1 ruble is valid for trade with the USSR, it does not clearly confirm this ratio for trade with the European Satellites. The discrepancy, however, is slight and probably can be reconciled as more information regarding customs procedures and transshipments becomes available. For example, the Satellites sometimes act as middlemen in the procurement of Western European goods for China or in the sale of Chinese produce to the West. In such cases the conversion may be at the "Western" rate or recorded as Sino-Satellite trade by only one party to the transaction. Finally, the participants concurred that, because a conversion ratio of 1 yuan to 1 ruble exists in Sino-Soviet trade, adoption of the same ratio for Sino-Satellite trade appears reasonable.

In discussing the reasons why China has adopted dual conversion ratios for foreign trade, it was agreed that the trade of China is conducted in foreign currencies, with possibly minor exceptions. It was

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agreed, therefore, that insofar as the adoption of a dual system was rational, it was done for reasons related to internal problems.

A number of explanations were offered, but it was generally recognized that no satisfactory answer to the enigma has yet been discovered. All concurred in the notion that, insofar as the economics of the matter is concerned, the yuan-ruble ratio is an arbitrary one, and any other ratio would serve as well as 1 to 1. The Chinese probably have chosen parity between the yuan and the ruble because it is convenient and because of the belief that any other rate might have reflected on the prestige of one of the two countries. All participants agreed that the ratio of 2.46 yuan to US \$1 for trade with the Free World (in existence since 1953) probably was based, at least in some measure, on relative internal prices.

In the course of the discussion it was brought out that the yuan-ruble conversion ratio was originally consistent with the yuan-dollar rate. In 1950 it was established at or near 10,000 yuan to the ruble when the yuan-dollar ratio was set at 40,000 to 1. The ruble rate became about 1 yuan to the ruble at the time of the currency reform in 1955. The yuan-dollar rate was gradually appreciated until 1953, when it reached the present rate of 24,600 yuan to US \$1, a rate subsequently revised by the currency reform to 2.46 yuan to US \$1. There was general agreement among the participants at the conference that China's leaders felt no need to alter the yuan-ruble rate, that the appreciation of the yuan in terms of Western currencies resulted in an improved alignment of domestic prices with Free World prices, and that the greater value attributed to the yuan in Free World trade was fairly realistic in terms of its internal purchasing power. Most participants felt, however, that further evidence is needed to verify the hypothesis that the appreciation was made for this reason. Some participants believed that the dual system provided the Communist regime in China with an unobtrusive weapon for putting pressure on private foreign traders. A few participants thought that the system was adopted in part because it enabled China to exaggerate statistically the degree to which its foreign trade was oriented toward the rest of the Bloc. All agreed that the appreciated yuan - Free World currency ratio reduced the yuan amounts that had to be paid to Chinese receiving remittances from friends and relatives residing abroad, but no one felt that this was a complete justification for the move.

Thus it was agreed that none of the suggested hypotheses was, by itself, a complete explanation, and it was concluded that arriving at a thoroughly acceptable explanation, if this is possible at all, depends on obtaining additional information regarding foreign trade operations and internal pricing practices in China. It was suggested that foreign

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trade or banking officials of Communist China might be approached on several of these matters and asked, in particular, for an explanation of the dual system and the rationale for adopting it.

B. Bloc Credits to Underdeveloped Countries (3 December).

Participants included representatives of [REDACTED] 25X1X7
25X1X7 [REDACTED] IRA (State), and ORR (CIA). The Chair-
25X1A9aman was [REDACTED] ORR.

The major subject covered in this discussion concerned the methodology of evaluating military credits. Past differences in estimates, it was found, were in part the result of quite different approaches to the problem. Essentially, [REDACTED] has been attempting to 25X1X7 estimate the value of Bloc arms delivered or promised for delivery to underdeveloped countries. CIA, on the other hand, has been attempting to estimate the value of arms contracts in terms of the sums of indebtedness incurred by underdeveloped countries. Both [REDACTED] 25X1X7 CIA expressed misgivings about some of their past estimates; the former believes that its estimates have probably been high, and the latter believes that its estimates have been low. Each is presently revising its estimates, and it appears at this preliminary stage that the estimates will be approximately the same, if due allowance is given for conceptual differences.

C. Future of Sino-Soviet Economic Relations (4 December).

Participants included representatives of [REDACTED] 25X1X7
25X1X7 [REDACTED] IRA (State), and ORR (CIA). The Chair-
men were [REDACTED] 25X1A9a
ORR.

It was agreed that Sino-Soviet economic relations have grown enormously since the Communist takeover in China in 1949. Trade, in particular, is extremely high and appears to be continuing to expand. The USSR has provided China with loans amounting to about \$1.3 billion, of which approximately \$430 million were designated for economic purposes.

Some participants expressed the opinion that the amount of economic loans extended by the USSR to China was modest. It was generally agreed, however, that the amounts extended probably were adequate in terms of China's ability to absorb foreign capital and, in the light of its military debts, to repay its foreign obligations. All agreed, moreover, that China was attempting primarily to rely on domestic savings

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and, insofar as possible, on domestic production to carry on its economic development program. Finally, it was pointed out that, in addition to extending economic loans, the USSR has provided considerable technical assistance and has aided in the technical education of a large number of Chinese.

It was generally agreed that the USSR probably would not extend additional economic loans to China in the future. It was suggested that new military loans may be forthcoming, but all agreed that this was likely only in the event of greatly expanded military requirements in China. It was the consensus that Soviet shipments of capital equipment would continue at about the current level in accordance with existing agreements. China, it was agreed, probably would expand its exports to the USSR during the next several years and would be required to maintain an export surplus of considerable size in order to meet its debt repayment obligations. The possibility was suggested, however, that China may repay the Soviet loans in sterling or goods obtained from Free World suppliers, and it was agreed that this was a subject that demanded additional study. Trade between the Satellites and China also, it was agreed, can be expected to continue at a high and rising level, for there are economic advantages to both sides in these exchanges.

D. Communist China's Economic Relations with the Free World
(4 December).

Participants included representatives of [REDACTED] 25X1X7
25X1X7 [REDACTED] IRA (State), and ORR (CIA). The Chair-
man was [REDACTED] ORR. 25X1A9a

It was agreed that, although China's trade with the Free World has expanded more rapidly than trade with the Bloc in recent years, a pronounced continuation of this trend is not anticipated. Trade with the Free World probably will continue to expand, but at about the same rate as total trade.

All participants agreed to reserve their opinion on certain reports regarding China's recent promotional success in Southeast Asia, for there is little evidence that China's total trade in the area has expanded above the 1957 level, with the exception of Hong Kong. Imports from Western Europe increased, however, during 1958.

All agreed that China probably has considerably smaller foreign-exchange reserves than in the past and probably is experiencing certain difficulties in this respect at the present time. Some participants thought that China would attempt to maintain approximately balanced

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accounts in each of the two major trading areas of the Free World -- Asia and Western Europe. Others believed that exchange earned in trade with other Asian countries would be used to finance imports from Western Europe. All agreed that China would attempt to continue earning sterling in Hong Kong for use in Western Europe. All agreed that overseas remittances had dropped precipitously during the past year. 25X1X7

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E. Soviet Foreign Trade Handbooks (5 December). 25X1X7

Participants included representatives of [REDACTED] 25X1X7
[REDACTED] IRA (State), and ORR (CIA). The Chairman was 25X1A9a
[REDACTED] ORR.

Although they present a considerable amount of new information on Soviet commodity trade for 1955-57, the trade handbooks published by the USSR contain several challenging discrepancies. The discussion was directed primarily at trying to account for these discrepancies.

The major discrepancy (\$106 million in 1957) is the difference between the stated total of Soviet exports and the total derived by summing Soviet exports to each country listed. Despite long and detailed discussion, this residual remains unaccounted for. It was generally agreed that no single factor accounts for this discrepancy but that both normal accounting practices and possibly purposeful omissions are involved. The residual is thought to involve two or more of the following factors:

1. Omission of the USSR's minor trade partners from the handbook -- which, however, could account for no more than \$10 million of the unexplained residual.
2. Goods sent on consignment, for which no country of destination is recorded. A [REDACTED] representative believes that this factor does not account for the unexplained residual. 25X1X7
3. Military goods sent to Free World countries.
4. Gold shipments.

The suggestion that gold shipments might account for a good part of the discrepancy was the most controversial. [REDACTED] 25X1X6

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25X1X6 [REDACTED] gold is included in total Soviet export figures and in Soviet exports to individual countries. Most available evidence, however, suggests that gold is not included in Soviet export figures.* It was agreed that additional information must be received before this discrepancy can be explained satisfactorily. Means of acquiring such information were discussed.

It was noted that the sum of specified Soviet commodity exports to individual Bloc countries fell short of the total value of exports to each. The consensus was that the unaccounted residual probably represents military and other strategic goods exported to these countries. The possibility that the residual may include intra-Bloc gold shipments was also suggested.

It was generally agreed that the difference between the listed total of Soviet imports from East Germany and Rumania and the sum of categorized imports from these countries probably reflects mainly uranium ore shipments. In the case of Czechoslovakia, this residual appears to reflect Czechoslovak arms exports.

In a brief discussion of Soviet foreign trade prices it was noted that unit values in the USSR's Free World trade, as computed from handbook data, differ from those in its trade with the Bloc. It was agreed that no conclusions can be reached on the basis of these data, because the sample is too small and absolute identity of product cannot be established in every case. It was also pointed out that, although intra-Bloc trade prices are presumably based on world market prices, the former usually remain fixed for at least a year and thus often lag behind changes in the world market level. Furthermore, the fact that the USSR may charge a Bloc country a higher price than it would a Free World country for a given product does not, in itself, prove discrimination; higher prices to Bloc countries may be offset by a quid pro quo of some sort on the part of the USSR.

F. Soviet Gold Exports and Policy (5 December).

25X1X7 [REDACTED] Participants included representatives of [REDACTED] 25X1X7
[REDACTED] IRA (State), and ORR (CIA). The Chairman was
25X1A9a [REDACTED] ORR.

* The US Resident Delegation to the ECE, Geneva, has recently reported that both the Delegation and the ECE Secretariat have modified their previous views on the inclusion of gold in Soviet export figures and now believe that gold is excluded and that military deliveries on commercial account are included.

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It was agreed that the USSR strives to pay for merchandise imports with merchandise exports and -- unlike a country such as the Union of South Africa -- regards gold only as a balancing item in its trade rather than an export commodity. It was the consensus of the group that 1958 gold sales would prove to be substantially lower than the record 1957 sales (estimated at approximately \$300 million), which largely reflected the Satellite uprisings. It was further agreed that the increasing costs of gold mining resulting from depletion of deposits and labor scarcities have made the consistent use of gold to augment export earnings an increasingly costly operation for the USSR. The Soviet government therefore can be expected to intensify its efforts to balance its imports with exports of goods other than gold -- possibly tin, aluminum, and petroleum will be important substitutes for gold exports in the future.

Although the [REDACTED] had some reservations about CIA's estimate of annual Soviet gold production (4.5 million to 5.0 million ounces), it was generally agreed that the annual volume of Soviet gold exports is consistent with a production of this order of magnitude.

G. Ruble-Dollar Ratios in Soviet Foreign Trade (9 December).

Participants included representatives of [REDACTED] 25X1X7
IRA (State), and ORR (CIA). The Chairman was
25X1A9a [REDACTED] ORR.

It was suggested, on the basis of a superficial look at the pattern of Soviet commodity trade with the industrial West, that one might conclude that the USSR is ignoring comparative costs -- that is, the USSR exports goods (for example, agricultural products) which it finds relatively costly to produce in exchange for goods (for example, machinery) which it produces relatively cheaply. The available ruble-dollar ratios for Soviet machinery prices from which the above conclusion is drawn do not, however, reflect the types of machinery which enter Soviet trade. Ruble-dollar ratios for the latter may diverge widely from those applicable to machinery in general. It was agreed that more ratios -- both ruble-dollar and internal ruble - external ruble -- will be required before the degree of economic motivation in Soviet trade with the industrial West can be determined. Meanwhile, only the general proposition can be made, that Soviet agricultural production is for the most part high-cost and machinery production low-cost.

The consensus was that the USSR is beginning to show a greater awareness of cost -- absolute, if not comparative -- in the conduct of

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its foreign trade. At present, however, the composition of Soviet trade continues to be dominated by the priorities of domestic plans and by domestic availabilities of goods for export.

H. Autarky and Soviet Foreign Trade Policy (9 December).

Participants included representatives of [REDACTED] 25X1X7
25X1X7 [REDACTED] IRA (State), and ORR (CIA). The Chairman was
25X1A9a [REDACTED] ORR.

The discussion showed that it is difficult to obtain precise agreement on the formulation and implications of a concept as abstract as that of autarky. There appeared, however, to be general agreement on the role of autarky when defined as a policy of establishing independence of imports. During the prewar period the Soviet quest for economic self-sufficiency was a natural response to the Soviet position of isolation in a hostile world. Since World War II the rapidly growing economic power of the USSR and, more recently, the increasing economic integration of the Bloc as a whole have made the USSR virtually independent of the Western world. Now that the USSR has achieved a high degree of economic self-sufficiency, autarky has become, particularly since Stalin's death, a less important determinant of Soviet policy.

25X1X7 The [REDACTED] doubts whether in present conditions autarky retains any importance as a practical factor in Bloc trade planning.

It was the consensus of the group that, until East-West relations are characterized by something more than merely an armed truce, the USSR will not permit itself to become dependent on external sources of supply for any goods deemed strategic to Soviet national interests. Meanwhile, considerations of cost will continue to remain secondary to those of national security as a determinant of Soviet commodity trade. Within these limits, however, there is room for a considerable expansion of trade. The magnitude of both Soviet imports and exports may increase in response to the ever-present technological needs of a rapidly growing economy, to the desire to add to consumer welfare without diverting resources from more essential investment, or to the wish to further an economic offensive which has already reaped significant political rewards.

I. Satellite Trade Statistics (10 December).

Participants included representatives of [REDACTED] 25X1X7
25X1X7 [REDACTED] and ORR (CIA). The Chairman was [REDACTED] 25X1A9a
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Analysts from the Trade Branch, ORR, reviewed the status of trade reporting by the various Satellite governments. The participants noted a general improvement in both the quality and the volume of Satellite trade statistics published over the past several years, although the degree of coverage varies widely from country to country.

Czechoslovak trade reporting was poor for the earlier years, but recent Czechoslovak yearbooks and other statistical periodicals have provided considerable data on the commodity structure of exports and imports and on the value of Czechoslovak trade with major Bloc trade partners. Value figures have been lacking for trade with Czechoslovakia's less important Bloc trade partners, particularly for the years before 1955.*

Since 1956 the Hungarian government has released a substantially increased amount of trade data, although some gaps still exist for earlier years. A statistical handbook published in 1956 was followed in 1957 by a statistical yearbook covering the years 1949-55. The 1956 Statistical Yearbook, just released, includes a commodity breakdown of major exports and imports by source and destination. Two monthly trade publications** contain current information on the value of Hungary's trade with major trade partners.

East Germany also publishes a relatively large amount of trade data. Several deficiencies remain, however, particularly in regard to the commodity composition of trade since 1955 (in value terms) and in regard to the distribution of key trade commodities among leading trade partners. Balance-of-payments data also are lacking.

The Polish statistical yearbooks, the monthly foreign trade journal Handel zagraniczny, and the Polish News Bulletin are valuable sources of information on Poland's current trade payments. A lack of data on Poland's balance of payments and on both the volume and value of trade in individual commodities is the chief gap remaining.

Publications of Bulgaria's trade ministry, together with periodic plan fulfillment announcements, provide the best continuing source of Bulgarian trade data. The 1956 statistical yearbook contains useful summary information on the composition and geographic pattern of trade.

* The 1958 Czechoslovak yearbook, received in early January, presents value figures for Czechoslovak trade with all Bloc countries for 1953-57.

** Monthly Statistical Bulletin (Statisztikai havi kozlemenyek) and Foreign Trade (Kulkereskedelem).

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Albania and Rumania publish no systematic trade statistics. The Soviet foreign trade handbook is the best source of information on Soviet-Albanian trade and on Soviet-Rumanian trade.

Exploration of the possible reasons for discrepancies in Satellite trade statistics took up most of the remainder of the discussion, although no conclusions were reached.

J. Soviet Economic Aid to the European Satellites (10 December).

This discussion took place jointly with a regular meeting of the Services Division Satellite Committee of ORR (CIA) and was attended by a representative of 25X1X7 [REDACTED] and members of ORR. The subject was presented 25X1A9ay [REDACTED] ORR.

The speaker traced the course of Soviet economic assistance to the Satellites since World War II, pointing out that Soviet aid of less than \$5 billion has been more than offset by Soviet takings, reflected in about \$9 billion of reparations from Eastern Europe. Soviet credits nevertheless have been important to Satellite development. In the period 1951-55, for example, Soviet developmental credits amounted to between 18 and 27 percent of Polish investments in machinery and equipment. It was agreed that, since the 1956 uprisings, the Satellites have received greatly increased Soviet aid and that it has been extended on more favorable terms than in the past.

Regarding future prospects for Soviet aid, it was agreed that certain imbalances still exist in the Satellite economies, so that occasional Soviet aid, in commodities or foreign exchange, probably will be required. In the future, developmental credits are likely to be directed to selected Satellite industries, the expansion of which is considered important to current Soviet plans for either Soviet or Bloc-wide economic development. The current high level of Soviet aid, representing the USSR's response to the Satellite revolts, can be expected to diminish rapidly. It is possible that in 1961-62 the flow of goods from Eastern Europe to the USSR in payment for past credits will exceed the flow of aid in the opposite direction.

Soviet aid extended to the Satellites is insignificant in terms of Soviet GNP -- about 1 percent. Certain sectors of the economy could conceivably have been strained to a greater extent than this aggregative comparison would indicate. It was agreed, however, that the USSR could, if necessary, maintain its present level of aid to Eastern Europe without seriously disrupting domestic plans.

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K. Discussion of Bloc Economic Integration (11 December).

Participants included representatives of [REDACTED] 25X1X7
25X1X7 [REDACTED], IRA (State), and ORR (CIA). The Chairman
25X1A9a was [REDACTED] ORR.

The group expects, over the next few years, an intensification of Bloc economic integration along present lines, involving coordination of plans, subcontracting of component production, and specialization of production. It was suggested that, because national planning goals are themselves not precise (for example, the Soviet Seven Year Plan expresses production targets as a range), coordination of national economic plans is far from being a detailed blueprint for the Bloc as a whole. It was further pointed out that Soviet spokesmen, although treating a central, Bloc-wide plan as an ultimate objective, assert that such supranational planning is impossible under current conditions.

There was general agreement that specialization of production by country will meet with many obstacles. A rational division of labor is inhibited by the differences between national price structures. Furthermore, the vested interest of each country in maintaining and utilizing existing productive capacities is causing resistance to plans calling for cutbacks or cessation of production. So far, recommendations of CEMA in this area are not binding on member countries. It was suggested that offers of economic assistance provide the USSR with a strong weapon for encouraging specialization where this is economically rational.

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